

Exhibit J

EPIC ANNUAL REPORT to the Governor and Legislature

October 1998 - September 1999

The EPIC Program experienced a dramatic increase in enrollment in the past year. Participation increased by 12,319 New Yorkers to a record 111,786 as of September 30, 1999.

The number of enrollees is expected to significantly increase as we enter the new millennium.

HELPING MORE SENIORS STAY HEALTHY

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EXECUTIVE SUMMARY

"I am very ill, with emphysema, cancer and osteoporosis. My husband has Parkinson's Disease. Before we had EPIC, we could not afford to purchase our prescriptions. Now, we can take our medicines, and we feel so much better."

Mrs. S.
Troy, NY

Recognizing the value of a prescription drug program for seniors, New York State created the Elderly Pharmaceutical Insurance Coverage (EPIC) Program in 1987. EPIC helps low and moderate income seniors purchase their prescription drugs. An evaluation of the program completed in the mid-1990s showed that the program not only provided significant assistance to participants, but also reduced other health care costs, such as hospitalizations and nursing home care.

EPIC completed its twelfth program year on September 30, 1999. This Annual Report focuses on the significant growth in enrollment experienced since the 1998 legislative change that lowered the program's fees and increased the income limits. Ultimately, this change made EPIC more affordable so that even more, older New Yorkers can take advantage of the benefits. In addition, the cost of prescription drugs and the impact on the program is noted. Status reports on routine operations, including the Therapeutic Drug Monitoring Program, outreach activities, and contract monitoring, are also included.

Chapter I: Serving More Seniors

The most significant outcome of this program was the dramatic growth in enrollment over the past year. More seniors looked to EPIC for help due to several factors including lower fees, higher drug costs nationally and reductions in other prescription coverage. By September 30, 1999, enrollment reached 111,786--the highest number of seniors ever enrolled at any one time.

Between October 1, 1998 and September 30, 1999, 36,481 seniors applied for EPIC, representing a 48 percent increase in applications over the previous year. Application activity was the highest between February and April 1999, as a result of a television, radio and newspaper campaign conducted in the winter of 1999.

Significant changes to the program prompted more seniors to enroll last year. This was expected given the reduction in fees for those with moderate incomes. In September 1999, almost 41 percent of enrollees were in the moderate-income Fee Plan, 53 percent in the lower-income Fee Plan and 6 percent in the Deductible Plan. In comparison, in September 1998, 26 percent of enrollees were in the moderate-income Fee Plan, 60 percent in the lower-income Fee Plan, and 14 percent in the Deductible Plan. As a result of these changes, the State experienced a dramatic increase in enrollees with moderate incomes.

Seniors who have other insurance that covers less than 60 percent of their drug costs may join EPIC. However, they must exhaust their other insurance benefits before using EPIC. In addition, seniors that have coverage that includes a benefit limit may join EPIC for the part of the year that they are without coverage from their other plan. The number of participants with other drug coverage has increased from almost 6,300 last year to nearly 9,000 this year. The majority of these seniors (6,500) has coverage that is not as good as EPIC, from either a Medigap plan or as a retirement benefit. However, the number that enroll for part of the year after they reach their benefit limit with a Medicare managed care plan increased from 1,000 last year to 2,500 this year. This is due to the reductions in benefits offered by many of these plans.

The growth in enrollment is also due to increased consumer satisfaction with the program. This year, 20,042 seniors either left the program or were denied benefits due to lapses in the renewal of their policies, as compared to 22,394 last year. Reasons for cancellation or denial included death, nonpayment, excessive income, other insurance and nursing home placement.

The average enrollee was a 79 year-old widow who was living on an annual income of \$11,800 and receiving multiple prescriptions to treat chronic illnesses. Seven out of ten participants were unmarried women, and over 45 percent were over the age of 80.

Chapter II: The Cost of Prescriptions

During the year, over 118,400 EPIC participants purchased 3.7 million prescriptions costing \$191.4 million. By using EPIC, seniors saved \$141.9 million at the pharmacy. After deducting participant fees and manufacturer rebates, the net cost for the program was \$105.4 million, as compared to \$77.8 million last year. Program costs increased due to several factors, including rising drug costs, more seniors using the program, and increased utilization.

A market basket study of the top 300 drugs used by participants was completed to measure the price increases of specific drug products. This study indicated that drug prices increased by approximately 6.5 percent since last year. EPIC's rate is higher than the national Consumer Price Index (CPI) for prescriptions (5.6 percent) due to the different mix of drugs used by seniors, as compared to the general population. In addition, an analysis that measured increases by drug category showed that there were significant increases in certain classes of drugs used by participants. For example, the cost of non-steroidal anti-arthritis medications increased by almost 24 percent, showing the impact of new drugs such as Celebrex and Enbrel on this class of drugs.

The cost of medications purchased during the year increased by 24 percent from last year. Similarly, payments to pharmacies increased by 30 percent. These increases are due to several factors:

- an increase in the number of seniors using the program. This year, 118,431 seniors used EPIC, as compared to 104,599 last year.
- an increase in the number of prescriptions purchased by each participant. Participants enrolled for a full year each purchased 38 prescriptions, as compared to 36 prescriptions last year.

- a 10.8 percent increase in the cost of the average prescription purchased, from \$46.45 last year, to \$51.47 this year.
- the high use of newer drugs by EPIC's population. Over 12 percent of the drugs purchased this year cost more than \$100. Forty-six percent of the prescriptions purchased were sole source medications. These prescriptions accounted for 74 percent of program payments.
- the mix of products used by participants, including a high volume of cardiac drugs and cholesterol lowering agents. This mix is different from the general population, where the use of antibiotics and hormone replacement therapies is predominant.

With continued increases in the cost of drugs and a fixed copayment schedule, the State's share of a copayment claim rose to 71.5 percent, up from the 70.4 percent reported last year.

Chapter III: Reviewing Utilization

To monitor utilization and protect the health and safety of participants, EPIC operates a Therapeutic Drug Monitoring (TDM) Program. This program notifies pharmacists and physicians of potential medication problems. As a result of these safety-net measures, pharmacists were able to scrutinize more than 166,000 prescriptions, thereby strengthening public health protections for seniors. In addition, 1,900 letters were mailed to physicians notifying them of other potentially harmful side effects that may affect an individual participant's health.

Because of their age and health problems, the types of drugs used by participants are different from those used by general population. Over 69 percent are using medications to treat cardiac problems, 28 percent for gastrointestinal disorders, and 23 percent for arthritis. This year, participants purchased 1.4 million generic medications. More than 72 percent of the brand multi-source medications were dispensed with generic products. But, program costs were largely influenced by the new, sole source products that accounted for 74 percent of program expenditures.

The Therapeutic Drug Monitoring Program includes a prospective system that notifies pharmacists of potentially serious problems before a medication is dispensed and a retrospective system that lets physicians know about other serious problems that may cause health concerns over time. This year, the prospective system reviewed 3.9 million prescriptions. Over 4 percent were suspended due to potential problems. Following the review of the dispensing pharmacist, more than 87,000 prescriptions were not filled. For the retrospective system, 1,900 letters were sent to physicians. Forty percent of these prescribers responded to the information, with more than 40 percent indicating that the information was used to strengthen and enhance patient care.

More than 3,700 pharmacies provided services to participants, ensuring easy access to benefits in all areas of the State. Each active pharmacy received an average EPIC payment of \$37,600. To improve services to participating pharmacies, an electronic pharmacy reimbursement system was developed to replace the issuance of paper checks. The process, implemented in October 1999, electronically credits each pharmacy's payments to their banks.

Executive Summary

The new system is much more efficient and eliminates the monthly issuance of over 7,000 paper checks.

Chapter IV: Accomplishments of Major Program Areas

The main focus of this year's outreach program was on increasing the general awareness of the program and promoting lower fees. As a result, Helpline call volume increased significantly with staff responding to 225,078 inquiries. In addition, the activities of the fiscal agent were closely monitored and found to be in compliance with contract standards.

Staff held 260 outreach sessions in communities across the State and worked with the State Office for the Aging, the local offices for the aging, and a variety of businesses and community organizations to promote the program. To complement these efforts, a variety of advertising initiatives was completed, including an extremely effective television and radio campaign. In addition, to ensure access to program information, over 538,000 brochures were distributed to pharmacies, legislators, local offices for the aging, and a variety of health facilities and agencies that serve seniors statewide.

To determine the level of customer satisfaction with Helpline services, a survey of participants who called the Helpline was conducted from October through November 1999. An overwhelming 99 percent of respondents indicated that they would recommend EPIC to others, and 90 percent indicated that they were very satisfied with the service. Information about the program was also provided by the State Office for the Aging's Senior Citizens' Hotline.

As required by legislation, a fiscal agent contractor completes specific functions. Throughout the year, State staff monitored the activities of the contractor, First Health Services Corporation, to ensure that quality services were provided to seniors and pharmacies. During the year, the contractor demonstrated competence in the administration of daily program operations and initiated improvements to expedite the processing of applications. A contract amendment was also negotiated to revise the performance standard for on-line point-of-sale system downtime during off-peak hours.

Several activities were undertaken to ensure that EPIC's entire operation was Year 2000 compliant. Whenever necessary, systems programs were modified so that services to seniors and providers would continue uninterrupted on January 1, 2000. State and contractor staff developed operational and contingency plans for the transition and completed informational mailings to participating pharmacies to remind them about Year 2000 compliance issues. As a result of these efforts, the transition to Year 2000 was successful.

During the year, 82 field audits were completed to ensure compliance with the program's legislative and regulatory requirements. These audits resulted in \$130,000 in claim recoveries. To improve audit efforts, benefit verification procedures were refined this year, including the expansion of confirming benefits directly with participants. More than 300 manufacturers, including all major companies, participated in the rebate program. This year, \$27.7 million in rebate revenue was collected from these manufacturers and used to offset the State's expenditures for program benefits.

I. SERVING MORE SENIORS

"EPIC is the best thing for today's seniors. I would not be able to afford my heart medications without it. Thank you New York State."

Mrs. S.
Brooklyn, NY

Introduction

There are 2.4 million New Yorkers who are age 65 or older. Of these, 1.1 million individuals are income eligible for EPIC. But, some of these seniors have Medicaid or other insurance that provide better prescription benefits. As a result, the number eligible for the program is estimated to be about 255,000. However, the number actually needing EPIC is even lower since many seniors do not have sufficient prescription costs to justify purchasing insurance. This chapter reviews how many seniors applied for and received EPIC benefits during this program year.

Program Description

Older residents of New York State may join EPIC if they are age 65 or older and have an annual income of \$18,500 or less if they are single, or a combined annual income of \$24,400 or less, if married. Those who receive Medicaid benefits or have any other prescription insurance that is equal to or better than EPIC are not eligible. Seniors who have other prescription coverage that is not as good as EPIC may participate, but must use their other benefits as their primary insurance. In addition, seniors who have better insurance that has a benefit limit may join for part of the year after they reach their limit with the other plan.

Prescription coverage is available through two different types of plans: the *Fee Plan* and the *Deductible Plan*. Those enrolled in the *Fee Plan* pay an annual fee for coverage. These fees range from \$8 to \$44 for lower income seniors and from \$80 to \$280 for those with moderate incomes. At the pharmacy, seniors who join the *Fee Plan* also pay a copayment that ranges from \$3 to \$23 for their prescriptions. And, there is a special feature for those with very high drug costs. They may receive their prescriptions at no charge for part of their coverage year if they spend a maximum amount in copayments.

There is no cost to join the *Deductible Plan* that is only available to moderate-income seniors. Single seniors with annual incomes between \$10,800 and \$18,500 and married seniors with joint annual incomes between \$14,400 and \$24,400 are eligible to join this plan. With this plan, seniors pay full price for their prescriptions until they spend a deductible that ranges from \$468 to \$638. Once the deductible is met, these enrollees pay only the copayment (\$3 to \$23) for their prescriptions for the remainder of their coverage year.

Seniors Applying for EPIC

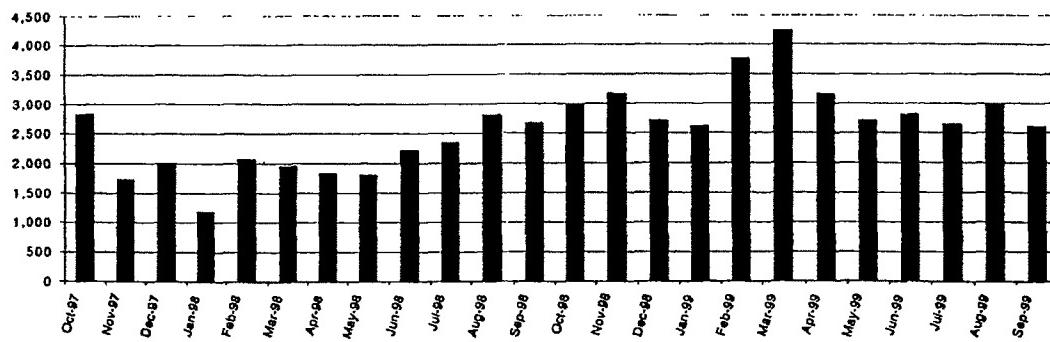
As illustrated by Figure 1, over 36,000 seniors applied for EPIC this year, a significant increase from last year when 24,648 applied. The higher application activity is largely due to the lower program fees that became effective on July 1, 1998. It represents the greatest number of applications received in any one year since the second year of program operations. In addition, almost 85 percent of this year's applicants actually joined the program, compared to the 70 percent reported in prior years. This change illustrates that the lower fees have made EPIC much more affordable, with many more seniors enrolling after they receive their initial bill.

FIGURE 1
EPIC APPLICATION ACTIVITY

Program Year	Applications Received	Percent Change From Previous Year
93-94	23,471	-2.2%
94-95	26,800	+14.2%
95-96	20,679	-22.8%
96-97	19,457	-6.3%
97-98	24,648	+26.7%
98-99	36,481	+48.0%

Figure 2 displays monthly application activity for the past two years. This year, the average number of seniors applying each month increased to about 3,000, as compared to the 2,000 applications that were received each month last year. This higher application activity is a direct response to the lower fees. In addition, a major paid television advertising campaign conducted from January through March 1999 resulted in a dramatic increase in application activity. A record number of applications (over 4,200) were received in March 1999. To a lesser degree, reductions in the prescription benefits offered by several Medicare managed care plans were also a contributing factor to this year's higher application activity. Table I in the Appendix illustrates this year's application receipts by county.

FIGURE 2
EPIC APPLICATIONS
OCTOBER 1997 - SEPTEMBER 1999



Changes in Enrollment

As illustrated by Figure 3, EPIC enrollment began to increase in June 1998, as a result of intense efforts promoting the program enhancements. Between July 1998 and September 1999, program enrollment increased by over 20 percent reaching 111,786 by the end of the program year. The sustained program growth was due to the combination of two factors, more seniors applied and fewer seniors cancelled their coverage. This enrollment trend is expected to continue into the next program year.

FIGURE 3
EPIC ENROLLMENT BY PROGRAM YEAR

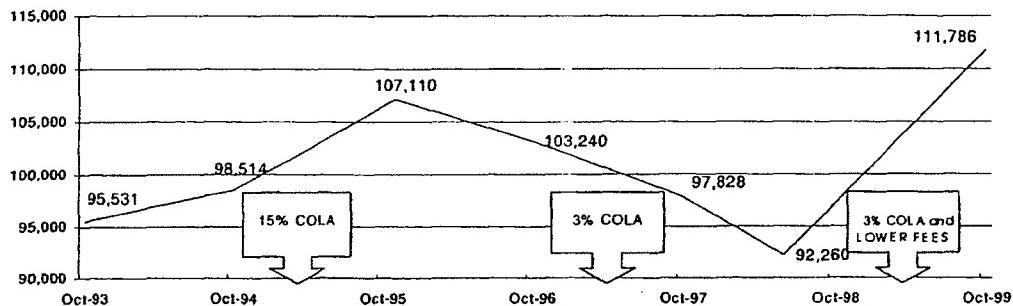


Figure 4 shows enrollment changes since 1993. As illustrated, total enrollment increased by 15,688 seniors during the program year. County-specific changes in enrollment during the program year are illustrated in Table II in the Appendix. As shown, some upstate counties, including Broome, Columbia, Montgomery, Otsego, and Warren/Hamilton, experienced enrollment increases of over 40 percent. A few of these areas (Broome, Columbia and Otsego) were heavily impacted by changes in or the withdrawal of benefits offered by managed care plans. As a result, many seniors who lost prescription coverage from other plans may have enrolled in EPIC. To determine to what extent this is occurring, a survey of new enrollees will be conducted in 2000.

FIGURE 4
SENIORS ENROLLED IN EPIC

Program Year	Seniors Enrolled at Beginning of Year	Seniors Enrolled at End of Program Year	Enrollment Increase/Decrease
93-94	95,531	98,514	2,983
94-95	98,514	106,776	8,262
95-96	106,776	103,240	(3,536)
96-97	103,240	97,828	(5,412)
97-98	97,828	96,118	(1,710)
98-99	96,118	111,786	15,668

Those enrolled in the program this year had very similar characteristics to the seniors previously enrolled. The typical enrollee was a 79 year-old widow who was living on an annual of income of \$11,800 and receiving multiple medications to treat one or more chronic illnesses. As illustrated by Figure 5, almost four out of five participants were women. Almost 7 out of 10 were over the age of 75.

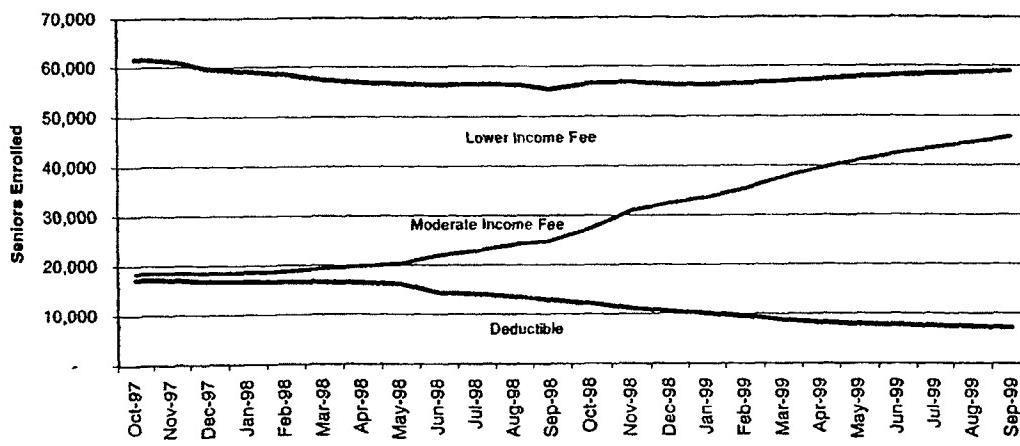
FIGURE 5
PORTRAIT OF EPIC'S ENROLLEES

Average Age	79
Over the age of 75	69%
Over the Age of 80	45%
Unmarried	78%
Female	79%
Minorities	11%

Enrollment By Program Type

There has been a significant change in the type of program in which seniors have enrolled. As illustrated in Figure 6, there has been a steady increase in the number of seniors enrolled in the moderate-income Fee Plan. This change was expected given the extent of the reduction in fees for those with moderate incomes. In addition, the deductible amounts were not changed, making this less attractive to seniors with even moderate drug costs. By the end of the program year, almost 41 percent of enrollees were in the moderate-income Fee Plan, 53 percent in the lower-income Fee Plan, and 6 percent in the Deductible Plan. In comparison, at the beginning of the year, 26 percent of enrollees were in the moderate-income Fee Plan, 60 percent in the lower-income Fee Plan and 14 percent in the Deductible Plan.

FIGURE 6
ENROLLMENT BY COVERAGE TYPE



Seniors with Other Insurance

Recent studies have shown that more than two-thirds of the nation's elderly have insurance that covers prescription drugs.¹ With most plans, seniors have to pay part of their prescription costs in the form of copayments. And, with some plans, there is a limit on the amount of benefits that an individual may receive in any one year.

EPIC's legislation states that seniors who already have prescription insurance that provides equivalent or better coverage are not eligible for benefits. Equivalent or better coverage is defined as insurance that covers 60 percent or more of the cost of prescriptions. The legislation also defines EPIC as the payer of last resort. This means that seniors with prescription coverage that is not as good as EPIC may join, but they have to use their other benefits before using EPIC.

In many instances, seniors have other insurance that includes an annual benefit limit. Some of these plans offer better coverage than EPIC. Seniors enrolled in plans that provide better coverage may join EPIC after they reach their benefit limits. However, when their new coverage year begins under their other plan and a new annual limit is established, they are again ineligible for EPIC.

Since 1997, seniors have been asked to provide information about their other prescription insurance when they apply for EPIC. Over 400 seniors were denied coverage this year because they reported having other insurance that was better than EPIC. However, 9,000 seniors who had other insurance participated in EPIC. While about 6 percent of participants reported having other coverage in 1997, the percentage has increased slightly over the past few years. By September 1999, almost 8 percent of participants reported having other prescription coverage.

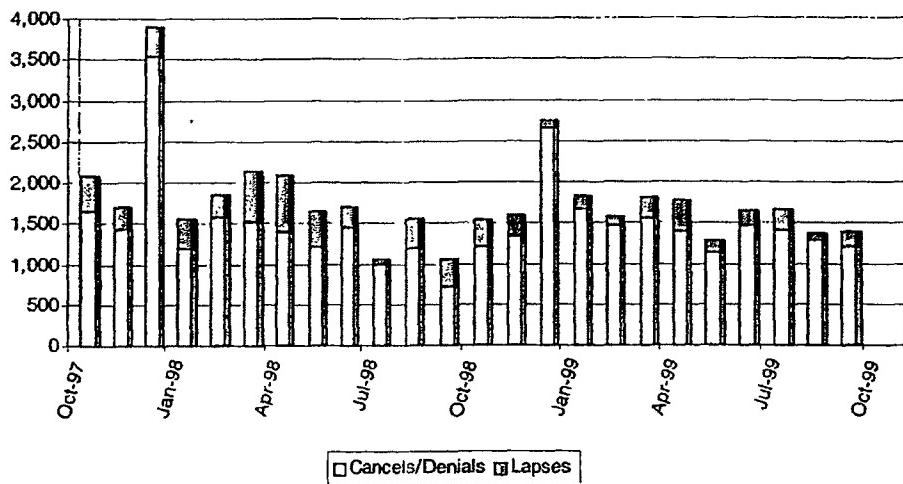
Almost 6,500 of the 9,000 participants with other insurance had coverage that was not as good as EPIC, either through a Medigap plan or as a retirement benefit. The remaining 2,500 seniors joined EPIC after they reached a benefit limit with their other insurer. The number joining after they reach a benefit limit with another insurer has also continued to increase, up from 1,000 participants in 1998. This increase is a result of the changes in the benefits provided by the Medicare managed care plans.

Changes in Cancellation Rate

Figure 7 illustrates the changes in the number of applicants who were denied benefits or cancelled their coverage since October 1997. As a result of last year's program improvements, fewer seniors cancelled their benefits or let their coverage lapse this year. During the program year, 15,833 seniors either left the program and 4,209 were denied benefits. The most frequent reasons for cancellation or denial continued to be death (25 percent), nonpayment (21 percent), income too high (11 percent), other insurance (11 percent), and Medicaid/nursing home placement (11 percent).

It should be noted that there are a high number of cancellations in December of each year because seniors who have other prescription benefits that renew at the beginning of the calendar year have to discontinue their EPIC coverage. However, many of these seniors reapply after they reach the benefit limit with their other insurer.

FIGURE 7
EPIC CANCELLATIONS/DENIALS & LAPSES
OCTOBER 1997-SEPTEMBER 1999



II. THE COST OF PRESCRIPTIONS

"I always recommend EPIC when the subject of expensive drugs comes up. It really helps!"

Mrs. M.
Binghamton, NY

Introduction

This chapter reviews how the cost of prescription drugs impacted program operations. While increases in the cost of drugs in the United States had somewhat moderated in the early 1990's, prescription costs increased by about 11 percent a year between 1992 and 1997.² As a result, almost 10 percent of the nation's health care expenditures are now allocated to medications, making drugs the fastest growing segment of the health industry.³

Overview of Costs

More than 118,000 seniors used EPIC during this program year to purchase 3.7 million prescriptions. These medications cost more than \$191 million. But, with EPIC, participants saved almost \$142 million at the pharmacy. After deducting participant fees and manufacturer rebates, the net cost to the State was \$105.4 million. A summary of this year's statistics is presented in Figure 8.

FIGURE 8
EPIC STATISTICS FOR TWELFTH EPIC PROGRAM YEAR
1998-1999

Enrollment as of September 30, 1999	111,786
Seniors Active During Year	118,431
Prescriptions Purchased	3,741,396
Total Cost of Prescriptions Managed	\$191.4M
Total EPIC Payments to Pharmacies	\$141.9M
Fees Paid by Seniors	\$ 8.8M
Rebates by Manufacturers	\$ 27.7M
Net State Costs	\$105.4M

How Seniors Used EPIC

The average EPIC participant who was enrolled for the full year purchased 38 prescriptions that cost \$1,960. But, after paying copayments, the senior's out-of-pocket costs were reduced to \$475. Savings were up 28 percent, from \$1,157 last year to \$1,485 this year. As shown in Figure 9, the average prescription costs and related savings varied depending on the plan the senior used. Those enrolled in the moderate income Fee Plan had the highest drug costs and savings, while those enrolled in the Deductible Plan had the lowest drug costs and savings. Seniors who enrolled after the July 1 fee change had slightly lower (5 percent) drug costs than earlier enrollees. And, because the Deductible Plan was not modified, the new Fee Plan was

more attractive to seniors. Seniors enrolling in the Deductible Plan after the fee change had drugs costs that were half of those who enrolled prior to July 1998. This has left the Deductible Plan a no-risk option for seniors with little or no drug costs who want coverage in case they encounter unexpected prescription costs.

FIGURE 9
EPIC AVERAGE COST OF DRUGS AND SAVINGS
BY PROGRAM TYPE

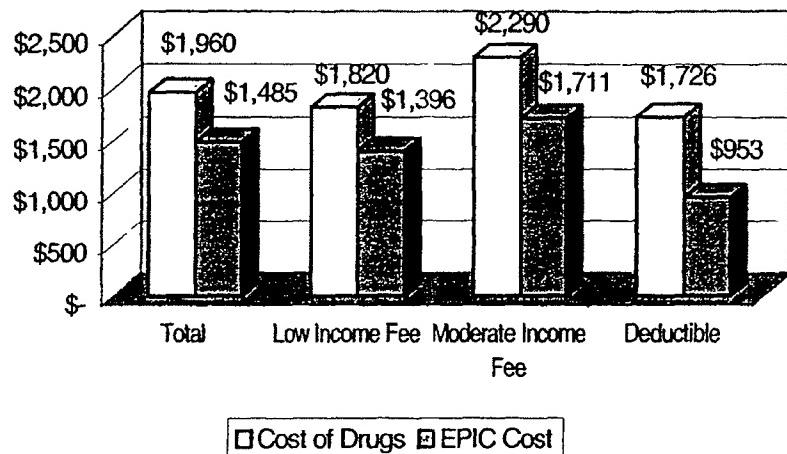
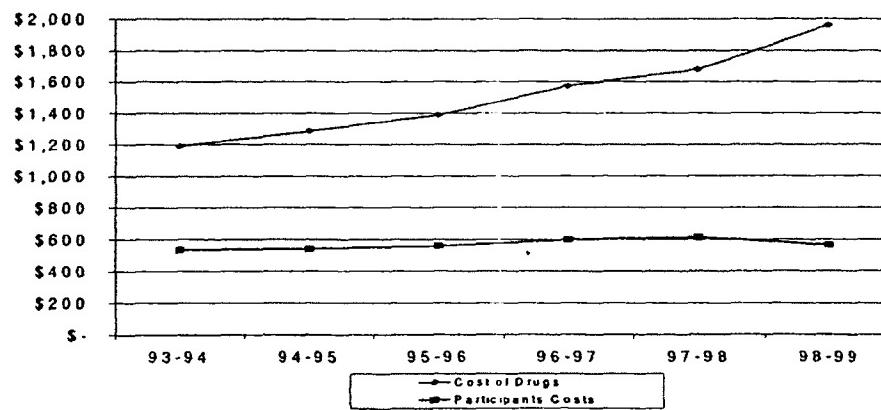


Figure 10 shows how the average cost of drugs for each participant enrolled for the full program year has increased from \$1,191 in the 1993-1994 program year to \$1,960 this year. After deducting fees and copayments, participant out-of-pocket costs increased slightly from \$536 in 1993 to 1994 to \$565 this year.

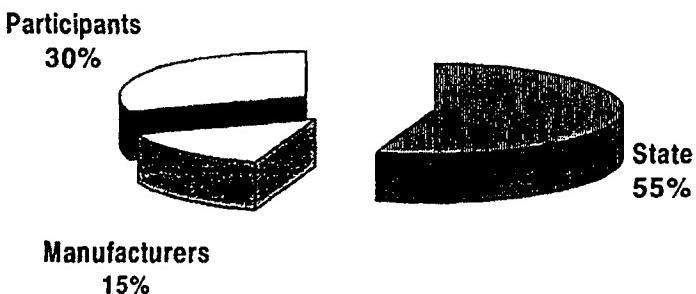
FIGURE 10
COST OF DRUGS COMPARED TO PARTICIPANT COSTS



Claims, Expenditures and Utilization

The total costs of medications purchased during the program year (\$191.4 million) increased by 24 percent from last year, while the average claim cost (\$51.47) increased by 10.7 percent. Payments to pharmacies increased to \$141.9 million. However, the State's costs were significantly offset by rebate revenues received from manufacturers and the fees and copayments paid by participants. As a result, the net cost to the State was \$105.4 million. Figure 11 shows the distribution of the costs of drugs purchased this year among the State, participants, and manufacturers.

FIGURE 11
EPIC DISTRIBUTION OF COSTS



A summary of claims, expenditures, revenue and utilization for representative years is presented in Figure 12. Table III in the Appendix includes a detailed summary of expenditures and participant costs by coverage type, marital status, and income. Table IV presents the annual participant benefit statement, summarizing payments, fees, and participant savings.

FIGURE 12
CLAIMS, EXPENDITURES AND REVENUE

	TENTH PROGRAM YEAR <u>(1996-1997)</u>	ELEVENTH PROGRAM YEAR <u>(1997-1998)</u>	TWELFTH PROGRAM YEAR <u>(1998-1999)</u>
NUMBER OF CLAIMS:			
Copayment	3,204,322	3,182,056	3,660,380
Deductible	<u>223,322</u>	<u>184,462</u>	<u>81,016</u>
Total Claims	<u>3,427,644</u>	<u>3,366,518</u>	<u>3,741,396</u>
EXPENDITURES:			
Total Costs of Drugs	\$142,389,376	\$153,799,960	\$191,355,843
Participant Copayments	\$ 37,313,975	38,438,342	46,450,166
Deductible Payments	<u>6,789,103</u>	<u>6,004,617</u>	<u>2,973,767</u>
EPIC Expenditures	\$ 98,286,298	\$109,357,001	\$141,931,910
LESS REVENUE:			
Manufacturers' Rebates	\$ 21,351,422	\$ 22,788,385	\$ 27,680,918
Participant Fees	<u>10,852,435</u>	<u>8,792,366</u>	<u>8,800,114</u>
Total Revenue	\$ 32,203,857	\$ 31,580,751	36,481,032
NET STATE COST:	\$ 66,082,441	\$ 77,776,250	\$105,450,878

COST AND UTILIZATION

	PROGRAM YEAR			
	FIRST 1987-1988	FIFTH 1991-1992	ELEVENTH 1997-1998	TWELFTH 1998-1999
Avg. EPIC Copay Claim Cost	\$12.60	\$19.78	\$34.41	\$38.78
Avg. Participant Copay Claim Cost	<u>7.30</u>	<u>8.97</u>	<u>12.08</u>	<u>12.69</u>
Total Avg. Cost Copay Claim	<u>\$19.90</u>	<u>\$28.75</u>	<u>\$46.49</u>	<u>\$51.47</u>
# of Participants Reaching Deductible	3,821	11,555	10,754	6,993
# of Participants Reaching Maximum Copay Limits	882	6,670	18,890	20,331

Increase in the Cost of Drugs

The Consumer Price Index (CPI) for prescription drugs, which measures price changes by specific drug products, increased by 5.6 percent for the period September 1998 through September 1999. But, because of the different mix of drugs used by participants, the rate of increase for the top 300 drugs purchased by EPIC participants was slightly higher, at 6.5 percent. In addition, there were significant cost increases in certain categories of drugs used by participants. For example, the cost of non-steroidal anti-inflammatory agents increased by almost 24 percent and antipsychotics increased by 34 percent.

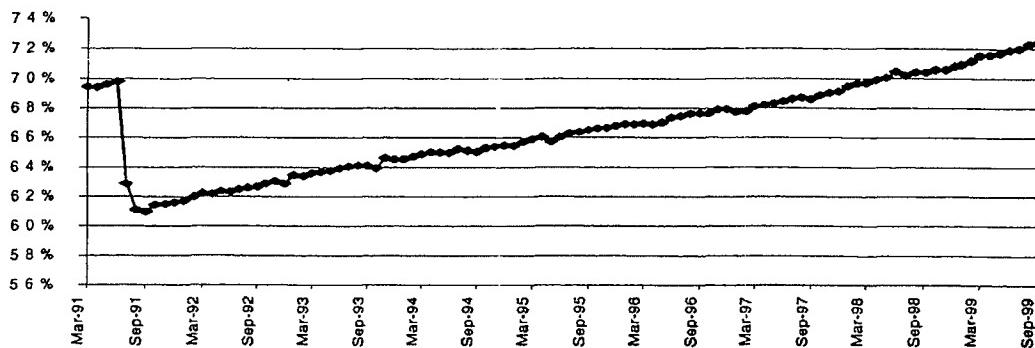
During the program year, the cost of drugs increased by 24 percent and EPIC payments to pharmacies increased by 30 percent. These increases can be attributed to several factors:

- *an increase of 13 percent in the number of seniors using the program.* This year, 118,431 seniors used EPIC, as compared to 104,599 last year.
- *an increase in the number of prescriptions purchased by each participant.* The 73,778 participants enrolled for a full year each purchased 38 prescriptions, as compared to 36 prescriptions last year.
- *a 10.8 percent increase in the cost of the average prescription purchase,* from \$46.45 last year to \$51.47 this year.
- *an 8 percent increase in the number of seniors reaching their copayment limit and receiving their medications free for part of their enrollment year.* This year, over 20,000 participants reached their limit and received 467,000 prescriptions without paying a copayment. As a result, the State paid 100 percent of the cost of these claims instead of 70 percent.
- *the high use of sole-source drugs by EPIC's target population.* For example, two new products used in the treatment of arthritis (Celebrex and Enbrel) were frequently used by EPIC participants. Forty-six percent of the prescriptions purchased this year were sole source medications. These prescriptions accounted for 74 percent of program payments.
- *the mix of products used by EPIC participants, including a high number of cardiac drugs and cholesterol lowering agents.* This mix is very different from what is used by the general population, where there is a high use of lower cost products, such as antibiotics and hormone replacement agents.

State Share of Copay Costs

The State's share of copayment claims increased from 70.4 percent last year to 71.5 percent this year as a result of the rising number of higher cost prescriptions purchased by participants. Figure 13 illustrates the increases in the State's share since 1991, when the copayment schedule was last adjusted.

FIGURE 13
STATE SHARE OF COPAY CLAIMS



Over 12 percent of the prescriptions purchased this year cost more than \$100, reflecting a continued increase in the use of high cost medications. A small number of these claims (2,882) cost over \$1,000. Most of these products are the new biotech products or chemotherapy agents. The percentage distribution of EPIC's drugs by volume and price is shown in Table V-A of the Appendix and a price distribution of drugs purchased by copayment band is included in Table V-B.

Seniors with High Drug Costs

Over one-third of the nation's seniors spend more than \$1,000 a year on prescription drugs.⁴ In contrast, over 70 percent of the 73,778 seniors enrolled in EPIC for the full program year had annual drug expenditures that exceeded \$1,000. And, almost 10 percent had drug costs over \$4,000. Seniors with high drug costs continue to account for a disproportionate amount of EPIC expenditures. These seniors are treated for serious illnesses such as cancer or transplant therapy, or they received multiple prescriptions for treatment of chronic diseases such as cardiac problems and stomach disorders. Figure 14 shows the distribution of this subset of enrollees and their expenditures by drug costs.

FIGURE 14
DISTRIBUTION OF EPIC POPULATION AND EXPENDITURES
BY DRUG COSTS

<u>DRUG COSTS</u>	<u>NUMBER OF ENROLLEES</u>	<u>PERCENT OF POPULATION</u>	<u>PERCENT OF EXPENDITURES</u>
Up to \$1,000	21,287	28.9	6.4
\$1,001 to \$2,000	23,827	32.3	21.2
\$2,001 to \$3,000	14,412	19.5	23.2
\$3,001 to \$4,000	7,116	9.6	17.2
\$4,001 to \$5,000	3,446	4.7	11.3
Over \$5,000	<u>3,670</u>	<u>5.0</u>	<u>20.7</u>
Totals	73,758	100.0	100.0

III. REVIEWING UTILIZATION

"EPIC has assisted my wife and myself to afford some expensive prescription drugs. Unfortunately, because of our poor health, we have to take many pills. But, EPIC has helped us a lot."

Mr. C.
Buffalo, NY

Introduction

Seniors represent about 12 percent of the population, yet they account for over one-third of prescription expenditures in the United States.⁵ Over 86 percent of the 65 plus population use at least one prescription drug a day.⁶ And, utilization varies with age and gender. The oldest of the old use more medications, and eight out of ten women regularly use prescription drugs. It is generally agreed that the use of medications has helped reduce other health care costs, such as hospitalizations and nursing home placements. But, because of their age and prevalence of chronic health problems, seniors are at an especially high risk of experiencing problems with the use of medications. This chapter reviews the utilization patterns of the 118,000 seniors who used EPIC over the last year and summarizes the steps taken to protect their health and safety through the operation of a Therapeutic Drug Monitoring Program.

Medications Most Frequently Used

EPIC participants are older and frailer than the general senior population. Most are over 79 and purchase 38 prescriptions a year for a variety of chronic health problems. Over 69 percent of participants are using medications to treat cardiac problems, 28 percent for gastrointestinal problems and 23 percent for arthritis. This is in sharp contrast to the national data that shows that the average number of prescriptions that are purchased each year by other seniors is 18.⁷ Table VI in the Appendix lists the 300 medications that were most frequently used this year and Table VII identifies the most frequently purchased drugs by the top ten therapeutic classes.

Table VIII contains the twenty medications most frequently purchased by participants. This list shows the increased use of expensive, single source products such as Lipitor, a cholesterol-lowering agent, Prilosec, a drug used to treat gastrointestinal disorders and Glucophage, a diabetes treatment. The drugs on this list account for about 26 percent of the prescriptions purchased. An osteoporosis drug, Fosamax, appears on this list for the first time, up from its ranking of 26 last year. This change reflects an increasing awareness and treatment of this debilitating disease. Over 18,800 participants used medications to treat osteoporosis this year. The cost of these drugs was just over \$4.4 million.

Based on dollars, rather than the volume of prescriptions, Table IX lists the top twenty drugs by cost. Prilosec remains at the top of this list. Additions to the list are Celebrex, Glucophage, Zoloft, and Plavix. Because of the high number of participants being treated for arthritis, there has been a rapid rise in the use of Celebrex, a medication that came on the market

in January 1999. Zoloft is used to treat depression and Plavix is an antiplatelet agent used to treat cardiac related conditions.

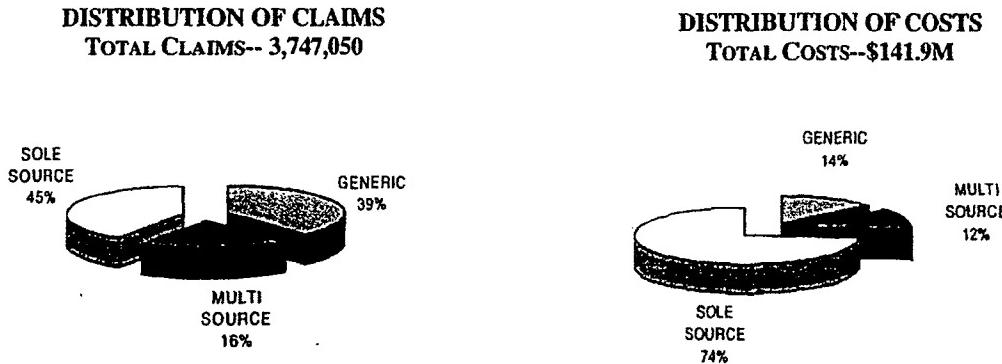
Types of Medications Used

Over the last four years, the use of generics by EPIC participants has stabilized. During this program year, pharmacists dispensed 1.4 million generic prescriptions to EPIC participants, representing 39 percent of the total prescriptions dispensed. The use of brand, multi-source products decreased from 17 to 16 percent of the total claims dispensed. Under New York State's mandatory substitution law, a generic must be dispensed when a multi-source product is prescribed, unless the prescriber indicates that the brand name product is required. This year, when substitution could occur, a generic product was dispensed 72 percent of the time. This rate, which is significant, increased from the 70 percent substitution rate experienced last year.

Cost savings are realized by the increased use of lower cost generic products. However, over the last year, there were significant price increases in some of the most frequently used generic products. As a result, the average cost of a generic prescription increased by 14 percent. In addition, the use of generic products is not always possible because many participants are prescribed newer therapies. This is particularly true for medications prescribed for certain disease states. For example, over 52 percent of the prescriptions for anti-ulcer medications were for the newer, and more expensive proton-pump inhibitors (e.g., Prilosec or Prevacid), as compared to the older H2 Antagonists (Zantac or Tagamet) drugs whose patents have expired. Recent studies have shown that proton pump inhibitors are very effective in the treatment of not only ulcers, but also reflux esophagitis. These findings have lead to an increased use of these medications that have become the standard of care for gastrointestinal problems.

This year, 45 percent of the prescriptions purchased were sole source medications. As illustrated by Figure 15, these prescriptions accounted for 74 percent of program payments. The increases in EPIC costs were strongly driven by these products. The average State cost for a generic prescription was \$13.55. For brand multi-source prescriptions, the average cost was \$29.60, and for sole source medications the average cost was \$61.86.

FIGURE 15
DISTRIBUTION OF EPIC CLAIMS AND COSTS



Therapeutic Drug Monitoring Program

To identify potential problems resulting from the use of prescription medications, EPIC operates a Therapeutic Drug Monitoring (TDM) program. The goal of the program is to promote the most appropriate drug use by participants. The program helps reduce the risk of health complications and the need for other more expensive treatments thereby strengthening public health protections for seniors. It also improves the quality of life of participants.

The TDM process includes prospective reviews (Pro-DUR) that immediately notify pharmacists of potential problems and a retrospective system (Retro-DUR) that advises prescribers of other problems that may cause health concerns over time. A Technical Advisory Group that consists of pharmacists and pharmacy educators provides the program with input and guidance.

Prospective Utilization Review

During the year, 3.9 million prescription claims were received by the program's on-line point-of-sale system. As illustrated by Figure 16, 165,608 claims (4.23 percent) were suspended due to the potential of therapeutic problems. Suspensions occur when the participant appears to be using multiple providers, has duplicative therapies or potential drug regimen problems. Following the clinical review of the dispensing pharmacist, over 87,000 claims (about 53 percent of the claims reviewed) were not filled.

FIGURE 16
PROSPECTIVE REVIEW STATISTICS
October 1998- September 1999

<u>Type of Review</u>	<u>Suspensions</u>	<u>Overrides</u>	<u>Percent Overrides/Suspensions</u>
Drug to Drug Interactions	13,861	11,995	86%
Therapeutic Duplication	59,718	44,482	74%
High Dose	6,439	3,800	59%
Early Refill	<u>85,590</u>	<u>17,954</u>	21%
TOTALS	165,608	78,231	

Feedback from pharmacists indicates that the reviews effectively identify significant problems. Special care is taken to ensure that the edits are for valid therapeutic problems for the elderly. During the year, several modifications were made to the review criteria to better serve EPIC participants. For example, Cox-2 inhibitors were added to the Therapeutic Duplication edits. One of the Cox-2 inhibitors, Celebrex, is now the most frequently used drug in the non-narcotic anti-inflammatory category. In addition, anti-viral drugs were added to the drug-to-drug interaction edits.

These up-front clinical reviews help to avoid unnecessary physician visits and hospitalizations due to adverse reactions, and protect the health and safety of participants. To estimate savings resulting from medications not being dispensed, the reviews were divided into

two subsets. In the drug-to-drug, therapeutic duplication and high dose categories, 25 percent of the claims were not dispensed following the pharmacist's review. The approximate cost savings of not filling these prescriptions were over \$1.1 million. In the second subset, almost 80 percent of the suspensions for early refill resulted in the drug not being dispensed, with a cost savings estimated at over \$3.8 million. However, the early refill category is difficult to translate into savings because the prescription may be eventually filled. Nonetheless, the edit defers the filling of a prescription and may result in fewer refills over the course of the year. This does translate into some additional savings beyond the \$1.1 million estimated for the other categories.

Retrospective Reviews

The retrospective system reviews the participant's drug use after the medication is dispensed to identify potentially dangerous utilization patterns that may cause serious health problems. Each month, a computer program is used to identify drug interactions, duplicative therapies, polypharmacy or overutilization of certain medications such as controlled substances or bronchodilators. The most serious cases are identified and clinically reviewed by pharmacy staff. When warranted, prescribers are sent a letter advising them of the potential problem that may affect an individual participant's health. A detailed profile that shows all medications that the participant received over the last 12 months is enclosed. This type of information is particularly important when the participant is seeing multiple prescribers and using multiple pharmacies.

This year, more than 5,800 reviews were completed. As a result, 1,900 letters were sent to prescribers explaining potential problems. Prescribers were asked to respond to the information. The response rate overall was very good, with over 40 percent of those contacted this year reacting to the information. Of those who responded, 29 percent said that they were unaware of the problem, 8 percent indicated that they had modified the therapy and 6 percent report that the medication that contributed to the problem had been discontinued.

An enhanced retrospective system was developed this year to better satisfy EPIC requirements. The new system is now operational with some refinements underway. The new process allows greater flexibility in making modifications to the review criteria and implementing changes in a timely manner. The final stage of the process, an automated system to track the therapeutic outcomes and cost savings associated with the interventions, is still in the development stage. This system will evaluate the effectiveness of the retrospective system by clinically re-reviewing the cases six months after the interventions and assign a dollar value to prescriptions not dispensed. This part of the program will be implemented in 2000.

Payments to Pharmacies

To ensure access to services for seniors, the majority of the State's pharmacies participate in EPIC. During the program year, 3,757 pharmacies provided services to EPIC participants, receiving an average EPIC payment of \$37,800. These pharmacies received almost \$141.9 million in State payments, an increase of 29 percent from last year. Independently owned stores comprised more than half the active providers, and about 45 percent were chain stores. The remainder represented institutions and mail order pharmacies. Table X in the Appendix shows the distribution of claims and payments by pharmacy type and Table XI presents a summary of pharmacy claims and payments by county.

During the year, the program's contractor developed an electronic pharmacy reimbursement system to replace the issuance of paper checks to pharmacies. The new electronic funds transfer (EFT) process was designed in accordance with National Automated Clearinghouse Association standards, the recognized industry standards. The system that was implemented in October 1999 electronically credits each pharmacy's EPIC reimbursement to their designated checking or savings account. While EPIC realizes only modest cost savings in bank service charges, the new system has enabled the program to provide enhanced services to pharmacies. It is much more timely and eliminates the monthly process of issuing over 7,000 paper checks. In addition, the process simplifies the reconciliation and reporting process and allows pharmacies to have access to their EPIC reimbursement several days sooner.